

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7390

BILL NUMBER: HB 1759

DATE PREPARED: Feb 5, 2001

BILL AMENDED:

SUBJECT: Inventory Tax Credits.

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FUNDS AFFECTED: X

**GENERAL
DEDICATED
FEDERAL**

IMPACT: State

Summary of Legislation: This bill provides a credit against state tax liability for property taxes paid on inventory. It phases the credit in so that the credit equals the assessed value of the taxpayer's business inventory after four years. The bill also provides that a taxpayer may not claim both the business inventory credit against state tax liability and the personal property tax credit.

Effective Date: January 1, 2001 (retroactive).

Explanation of State Expenditures: The Department of State Revenue (DOR) will have additional administrative expenses related to the updating of tax forms, instructions, computer programs and monitoring this tax credit. These expenses will be covered under their existing budget.

Explanation of State Revenues: This bill would allow a business inventory tax credit based on the amount of property taxes paid on inventory up to a maximum of \$70,000 in assessed value in the tax year beginning in 2001, and increases as outlined in the table below. The bill prohibits a taxpayer from taking both the inventory credit in this bill and the \$12,500 AV Personal Property Tax Replacement Credit (PPTRC) available under current law.

The credit may be taken against the taxpayer's liability under the Corporate Gross Income Tax, Adjusted Gross Income Tax, Supplemental Net Income Tax, Bank Tax, Savings and Loan Association Tax, Insurance Premium Tax, and the Financial Institution Tax. If a pass through entity does not have an income tax liability, the credit may be taken by the shareholder(s) or partner(s) in relation to their distributive income in which they are entitled from the pass through entity. If the amount of the credit exceeds the taxpayer's liability, they may carry forward the excess in subsequent years or get a refund. A taxpayer is not entitled to a carryback of any unused credit.

Estimation Issues: In estimating the impact of this bill, special attention was given to the impending real property reassessment. The final rules on real property assessment will have a direct impact on property tax rates and the amount of the property tax levy that will be attributed to inventory. Reassessment will shift some of the property tax burden from personal property owners to real property owners. Due to the uncertainty surrounding the next

reassessment and the amount of the shifts, this analysis projects the cost of the credit within a range, using a small shift and a large shift. The smaller total assessed value increase of 25% was based on previous Indiana reassessments while the larger total assessed value increase of 80% was based on the estimated impact of reassessing property using a market value approach. It was also assumed that the next reassessment will apply to property assessed in 2002 with taxes first paid in 2003 as mandated in the latest order from the Indiana Tax Court.

Data: According to the State Tax Board's Property Tax Analysis for various years, the net property tax on inventory equaled \$402 M in CY 1999. The 1998 pay 1999 inventory assessed value was \$4.5 B and has grown at an average annual rate of 4.9% over the last five years. The statewide net average property tax rate was \$8.5549 per \$100 AV in CY 1999 and \$8.6955 per \$100 AV in CY 2000.

Fiscal Impact: Future inventory assessed values were projected based on historical data and were then reduced to account for credits. Future average net property tax rates were also estimated. Based on estimates of future total tax levies and total assessed values, it is estimated that the statewide average net tax rate will grow at a rate of about 2% per year in non-reassessment years. An estimate of the future net property tax on inventory was then computed by multiplying the estimated net assessed value of inventory by the estimated net average tax rates. The estimate of the revenue loss in this bill was then adjusted to account for the prohibition of receiving both the inventory credit and the PPTRC. This tax credit would reduce income tax revenue by the following estimated amounts:

Tax Year	Max AV Allowed	Estimated Net Inventory Tax	FY Tax Impact	Revenue Loss
CY 2001	\$70,000	\$450 M - 453 M	FY 2002	\$145 M - \$146 M
CY 2002	200,000	480 M - 484 M	FY 2003	231 M - 232 M
CY 2003	1,000,000	289 M - 416 M	FY 2004	216 M - 310 M
CY 2004	100%	309 M - 444 M	FY 2005	300 M - 431 M

Although this analysis assumes that reassessment will be effective for property taxes paid in 2003, further legal action could delay the effective date. For this reason, the cost of the credit was also estimated assuming that reassessment would not take place. Without reassessment, the cost of the credit under this bill could be as high as \$535 M in FY 2005.

Based on the estimated growth rates of inventory assessed value and net property tax rates, the cost of the credit under both the "2003 reassessment" and the "no reassessment" assumptions is estimated to grow at about 6% to 7% per year after FY 2004. Revenue from the taxes listed above is deposited in both the General Fund and the Property Tax Replacement Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: Local revenues would not be affected by this proposal.

State Agencies Affected: Department of Revenue, State Tax Board.

Local Agencies Affected:

Information Sources: State Board of Tax Commissioners, Property Tax Analysis, various years; Local Government Database.